

Significance of Price Regulatory Mechanism in Agricultural Economy

Presented By:
Mahmood Nawaz Shah
Sindh Abadgar Board

Background

- Agriculture is 25% of GDP, 70% exports, 45% employment, sustains poorest of the poor.
- Engine of Economy. Provides raw material to textiles, sugar, food processing & export industry, leather etc.
- Only consumers of fertilizers, tractors, pesticide.

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BUT

- Pakistan is net importer of food products including Sugar, Wheat, Milk, Edible oil, Pulses, etc
- After crude oil, highest import bill is of Edible oil. Rs. 54 Billion
- Just add wheat, sugar, milk, etc .

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Symptom

- Erratic increase of prices, shortages, chaos
- Consumer suffers, Economy suffers
- Trade deficit, drain on foreign exchange. 9 Billion dollars

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What to DO??

- An active, Price Regulatory Mechanism needs to be in place.

■ WHY

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Because Agriculture is the weakest link in the chain

- Agriculture deals in perishables.
- The production is in bulk quantities.
- Long conversion time.
- It is cyclical in nature.
- Exposed to weather, environment.
- One of major concerns of WTO.

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Due to that

- Most of the time growers are unable to get even the cost of production.
- The pest attacks or weather destroys crops.
- They are unable to invest in the crop, use technology, human resources etc.
- E.g. Last year apart from Sugar cane all crops sold below the cost of production

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Current Structure

- Government moved from no support to on and off support.
 - Few Examples
- Cotton TCP is supposed to buy when prices fall below a certain level. Four Ministries have to meet before deciding.
- Production of 14 MT in 2003 producers sold their crop below support price suffering loss. Production fell to 7.9 MT

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Implementation Process

- Recognition.
- Proper implementation. Should not hurt government, and consumers.
- Take stake holders in confidence.
- Price stabilization Fund.

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Advantages

- As a regulator in a free economy through this mechanism Government is able to powerfully regulate.
- Government will be able to purchase at lower prices thus protecting Consumers from hoarders and speculators.
- Farmers get their return, will be able to invest to increase productivity and yield. Producing exportable surplus
- Reduce conflict between stakeholders

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Conclusion

“Effective Price Regulatory Mechanism is likely to bring policy discipline and benefit consumers, growers and economy”

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